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DRAFTED ZY: EB:ORF:FSE:LRAICHT & FEDERAL ENERGY OFFICE;

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EB/ORF

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FM SECSTATE WASHDC

TO AMEMBASSY ROME PRIORITY

AMEMBASSY BONN

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INFO AMEMBASSY BRUSSELS

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AMEMBASSY TOKYO

RUEHSDWXAMEMBASSY THE HAGUE 0000

AMEMBASSY LONDON

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

C O N F I D E N T I A L STATE 062482

C O R R E C T E D C O P Y (DELETION OF CAPTION)

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EMO. 11 5 : DECLASSIFY DEC 31, 1980

TAGS: ENRG

SUBJECT:ECG - ROLE OF THE INTERNATIONAL OIL COMPANIES

REF: BRUSSELS 1563

1. ACTION ADDRESSEES REQUESTED PASS FOLLOWING INITIAL PAPER PREPARED BY USG ON EVOLVING ROLE OF COMPANIES (PARA 2.H. REFTEL) TO RISTAGNO, LANTZKE, OCKRENT AND DENIS. ROME AND BONN SHOULD REQUEST THAT WE BE PROVIDED WITH COPIES OF INITIAL PAPERS BEING PREPARED BY ITALY AND FRG ON TRANSPARENCY AND RELATIONS BETWEEN INTERNATIONAL AND NATIONAL COMPANIES FOR REVIEW PRIOR TO MEETING APRIL 2 IN ADVANCE NEXT ECG MEETING.

2. ROME SHOULD ALSO ASK RISTAGNO TO ADVISE US OF TIME AND PLACE OF MEETING THIS GROUP ON APRIL 2. NAME OF US REP WILL BE PROVIDED LATER.

3. TEXT OF US PAPER FOLLOWS: THE CHANGING ROLE OF THE MAJOR INTERNATIONAL OIL COMPANIES.

4. THE DEGREE OF CONTROL AND OWNERSHIP TRADITIONALLY EXERCISED BY THE MAJOR INTERNATIONAL OIL COMPANIES HAS CHANGED SIGNIFICANTLY. OVER THE PAST FIVE YEARS, THE PACE OF THIS CHANGE HAS ACCELERATED.

5. PRODUCER GOVERNMENTS AND THE COMPANIES. PRICE AND PRODUCTION DECISIONS ARE TODAY MUCH LESS UNDER THE CONTROL OF THE COMPANIES THAN THEY ONCE WERE. THE TRADITIONAL CONCESSION FORM OF DOING BUSINESS HAS BEEN INCREASINGLY QUESTIONED BY PRODUCER GOVERNMENTS AND THESE GOVERNMENTS HAVE DEMANDED AND RECEIVED (THROUGH PARTICIPATION AGREEMENTS WITH THE COMPANIES) AN INCREASING CONTROL OVER THE ACTUAL SALE OF OIL. TO SOME EXTENT, THIS PARTICIPATION OIL IS BEING SOLD BACK TO THE COMPANIES FOR ACTUAL DISTRIBUTION, BUT TODAY THIS PARTICIPATION OIL ACCOUNTS FOR A SIGNIFICANT SHARE OF THE OIL ON INTERNATIONAL MARKETS.

6. IN ADDITION TO THE POLITICAL DESIRE FOR INCREASED CONFIDENTIAL

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CONTROL ON THE PART OF THE PRODUCER GOVERNMENTS, THE EXISTING TIGHT MARKET CONDITIONS HAVE LED TO A WEAKENED BARGAINING POSITION ON THE PART OF THE COMPANIES AND A CONSEQUENT INCREASED CONTROL BY PRODUCER GOVERNMENTS IN PRICE AND PRODUCTION DECISIONS.

7. THE INTERNATIONAL OIL INDUSTRY, HOWEVER, STILL PLAYS A PREDOMINANT ROLE IN THE SEARCH FOR OIL, ITS PRODUCTION,

REFINING AND DISTRIBUTION. MOREOVER, THE INDUSTRY STILL MANAGES THE WORLD'S COMPLEX OIL SUPPLY SYSTEM AND CONTINUES TO PROVIDE A LARGE PART OF THE IMMENSE CAPITAL SUMS WHICH ARE NEEDED TO SUPPLY THE NECESSARY "DOWNSTREAM" INFRASTRUCTURE, INCLUDING TANKERS, REFINERIES, ETC.

8. WHEN THE CHANGING ROLE OF THE INTERNATIONAL OIL COMPANIES IS ASSESSED, AND CHANGES NOTED, ONE CENTRAL OBSERVATION MUST BE MADE IN ADDITION TO THE COMMENTS ABOVE.

9. OIL TRADE IS INTERNATIONAL IN ALL IMPORTANT RESPECTS. ONLY A VERY FEW COUNTRIES ARE SELF-SUFFICIENT IN OIL. THERE IS, THEREFORE, A VITAL INTERNATIONAL NETWORK OF FUNCTIONS.

10. CONSUMER GOVERNMENTS. PERHAPS THE SINGLE MOST IMPORTANT CONCERN NOTED IN CONSUMING GOVERNMENTS' ATTITUDES AND EFFORTS TO EXTEND THEIR CONTROL OVER THE INTERNATIONAL COMPANIES ORIGINATES FROM THEIR NEED TO INSURE THAT THEIR NATIONAL INTEREST IN OIL IS PROTECTED BY THESE COMPANIES. AS A RESULT, SOME CONSUMER NATIONS HAVE CREATED THEIR OWN NATIONAL OIL COMPANIES OFTEN OWNING A MAJORITY INTEREST IN THEM, PROBABLY BECAUSE THEY DO NOT BELIEVE THEIR NATIONAL INTERESTS WILL BE ADEQUATELY SERVED UNLESS THE GOVERNMENT PARTICIPATES

MORE DIRECTLY IN THEIR DECISION-MAKING PROCESS.

11. ANOTHER PHENOMENON IS THE APPEARANCE ON THE SCENE OF A NUMBER OF INDEPENDENT COMPANIES, SOME OF THEM HAVING CONTROL OVER THEIR OWN CRUDE SUPPLIES AND INVOLVED IN EXPLORATION AND PRODUCTION WHILE OTHERS PARTICIPATE IN

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REFINING AND DISTRIBUTION ONLY.

12. NATIONAL OIL COMPANIES HAVE ALSO BEEN CREATED BY MANY OF THE PRODUCER COUNTRIES. THESE COMPANIES, OR THE GOVERNMENTS OWNING THEM, HAVE IN SEVERAL OF THE MAJOR PRODUCERS MADE EFFORTS TO EXPAND INTO FUNCTIONS OF THE INDUSTRY OTHER THAN PRODUCTION. INTEREST HAS BEEN EXPRESSED IN THE CONSTRUCTION OF REFINERIES, PIPELINES, TANKER CAPACITY AND THE MARKETING OF OIL PRODUCTS.

13. THIS HAS LED TO EFFORTS TO NEGOTIATE BILATERAL ARRANGEMENTS, SOME OF WHICH HAVE BEEN CHARACTERIZED BY BARTER RATHER THAN NORMAL COMMERCIAL TERMS.

14. THE FUTURE. THE INTERNATIONAL COMMUNITY'S NEED IS

TO HAVE EFFICIENT, RELIABLE SYSTEMS FOR THE SUPPLY OF OIL, THE DEVELOPMENT OF TECHNOLOGY, AND THE GENERATION OF THE HUGE SUMS REQUIRED TO FINANCE THE EXPANSION OF OIL SUPPLIES THE WORLD WILL NEED.

15. THE PRINCIPAL QUESTIONS OF CONCERN INCLUDE:

1. WITH THE ABILITY OF INTERNATIONAL OIL COMPANIES TO DETERMINE STABLE LEVELS OF PRODUCTION AND COSTS OF CRUDE SERIOUSLY DIMINISHED, IS THERE A ROLE FOR CONSUMING GOVERNMENTS IN NEGOTIATIONS WITH PRODUCERS AND HOW MAY IT BE MOST EFFECTIVELY EXPRESSED?

2. WITH OUR COMMON NEED TO HAVE A DEPENDABLE SYSTEM FOR THE SUPPLY OF OIL, HOW CAN THE DESIRE OF CONSUMING AND PRODUCING GOVERNMENTS TO BECOME MORE DIRECTLY INVOLVED BE EXPRESSED IN WAYS WHICH STRENGTHEN THE EFFICIENCY AND DEPENDABILITY OF THE OIL SUPPLY SYSTEM?

3. WHEN OIL BECAME-A COMMODITY VITAL TO THE ECONOMIES OF VIRTUALLY ALL STATES, CHANGES WERE INEVITABLE IN THE WAYS GOVERNMENTS REGARDED THE ROLE OF THE INTERNATIONAL OIL INDUSTRY. MOST OF THS E CHANGES HAVE COME THROUGH THE ACTIONS OF SINGLE GOVERNMENTS. THERE IS DANGER THAT A CONTINUANCE OF THESE ACTIONS COULD HAVE AN UNTOWARD,

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CUMULATIVE AND NEGATIVE IMPACT UPON THE EFFECTIVENESS OF THE INTERNATIONAL OIL SYSTEM -- WITHOUT ANY OF THESE AFFECTS BEING DESIRED BY ANY STATE. THE KEY QUESTION WHICH MUST BE FACED IS - DO STATES CURRENTLY DEFINE THEIR NATIONAL ENERGY INTERESTS IN SUCH A FASHION AS TO ALLOW FOR POLICIES WHICH ARE CONDUCIVE TO THE ADEQUATE FUNCTIONING OF A NECESSARILY GLOBAL INDUSTRY? IF NOT, HOW MUST THE DEFINITIONS BE ALTERED? RUSH

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